

ALLEGHANY COUNTY
County Manager's Fiscal Year 2010-2011
Budget Message

June 1, 2010

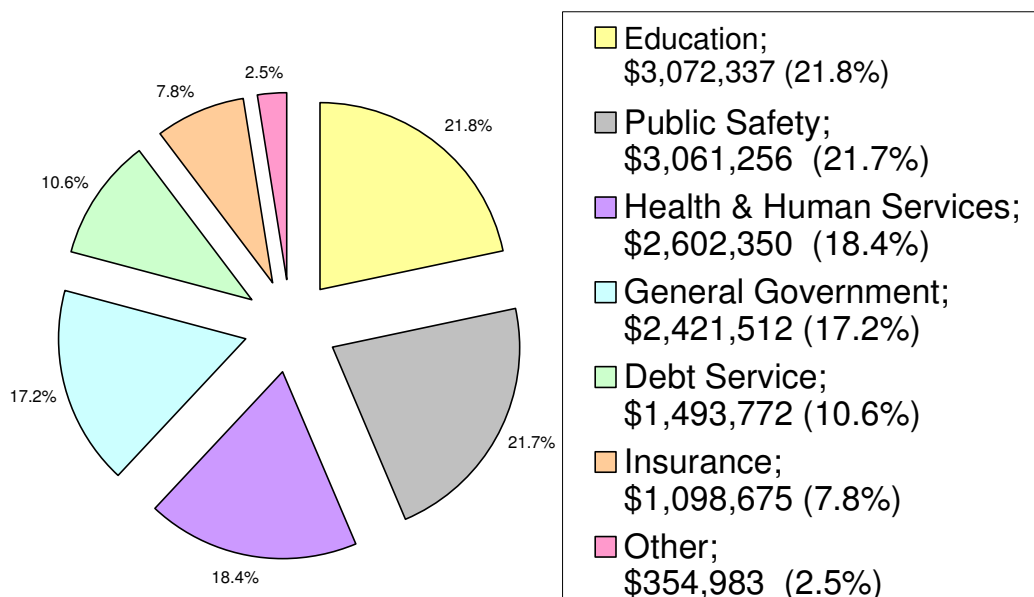
Alleghany County Commissioners,

The recommended 2010-11 Annual Budget for Alleghany County is in the amount of \$14,104,885. This recommendation constitutes an approximate decrease of -4.1% (-\$603,041) under the FY 09-10 amended budget. The budget is balanced and prepared in accordance with the Local Government Budget and Fiscal Control Act, presenting appropriations by categories of expense and revenues by source.

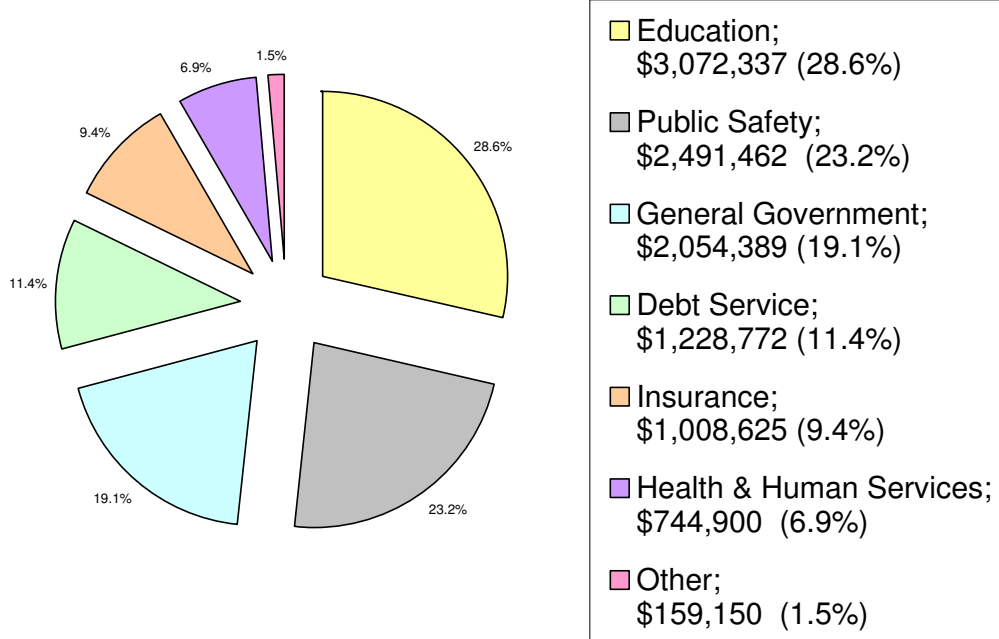
EXPENDITURES HIGHLIGHTS

The following pie charts illustrate Alleghany County's proposed "Total Expenditures By Function" and "Property Tax, Sales Tax and Undesignated Revenues Expended By Function".

Total Expenditures By Function- \$14,104,885



Property Tax, Sales Tax, Undesignated Revenues Expended By Function -
\$10,759,635



The “Property Tax, Sales Tax, Undesignated Revenues Expended By Function” chart is derived from the “Total Expenditures By Function” chart by removing the grants, reimbursements and other revenues from the corresponding expenditures. This portrays an accurate example of where the County’s property tax, sales tax and undesignated revenue dollars are actually being expended.

CATEGORICAL OVERVIEW

PERSONNEL

The proposed FY 10-11 budget has no changes to personnel. The Board has recently made grade modifications within Administration, Finance, Emergency Management, Tax Office, Mapping/E911 Office, Register of Deeds Office, Inspections, Planning, Recreation, EMS, Transportation, Soil & Water, Public Works and Social Services. The grade modifications are included in this proposed budget. These changes have positively impacted approximately 65% of our workforce leaving the remaining 35% unaddressed at this point.

INSURANCE / RETIREMENT

Alleghany County participates in the NC Association of County Commissioners' Liability and Property, Workers' Compensation and Group Benefits insurance pools. Alleghany County also carries insurance involving employee bonds, inmate hospitalization and unemployment. Alleghany County's overall FY 10-11 insurance is proposed to increase by \$43,737 or 4.15% over the amended FY 10-11 budget. 2.3% of the overall increase is attributed to actual rate increases while the remaining 1.85% increase is budgeted to take into consideration potential additions to our health benefits plan. The County is mandated to match general employee retirement at 6.47% and law enforcement retirement at 6.41%.

CAPITAL

Alleghany County has some necessary capital recommended to be addressed in FY 10-11. The following table itemizes the proposed FY 10-11 capital purchases.

Department	Description	Total Amount
Finance	Server \$18,731	\$20,566
	Fireproof filing cabinet \$1,835	
Public Works	¾ Ton truck w/ utility bed & snow blade connection \$35,000	\$85,286
	Morgue cooler \$17,366	
	Energy efficient lighting for six buildings \$32,920	
Building Inspections	4x4 SUV \$22,500	\$22,500
	TOTAL	\$128,352

CAPITAL IMPROVEMENTS

Alleghany County has some necessary capital improvements recommended to be addressed in FY 10-11. The following table exhibits the recommended General Fund capital improvements.

Location	Description	Total Amount
Administration	Parking lot repair \$1,100	\$1,100
Ext., Transp., S&W	Parking lot repair \$600	\$600
Library	Parking lot repair \$750	\$750
COA	Parking lot restripe \$400	\$400
WCC/BDC	Parking lot repair \$1,200	\$14,700
	WCC VTC replacement \$13,500	
LEC	Roof replacement \$30,916	\$30,916
Green Mtn/Fender Mtn	Repair access road to Fender	\$9,791
	Mtn. radio tower \$7,000	
	Repair antenna/move equip. on Green Mtn. radio tower \$2,791	
	TOTAL	\$58,257

MAJOR CAPITAL PROJECTS

There are four major capital projects that the Board of Commissioners have either funded or approved to proceed forward.

\$3,339,585 has been borrowed through the Qualified School Construction Bond program in order to build/renovate new classrooms, a gymnasium, and a cafeteria at Glade Creek Elementary School. \$288,247 has been budgeted in the debt service budget in order to make the required annual payment in FY 10-11.

Alleghany County has also proceeded forward with the purchase of property in order to build a new water/sewer system for the Glade Creek Elementary School project. The proposed cost for the new well and septic system is \$800,000. Alleghany County is anticipating grant funds from USDA to fund 35% of the project cost. The remaining 65% is planned on being borrowed from USDA over a 40-year term. \$25,000 is budgeted in FY 10-11 in order to make the annual payment to USDA.

Alleghany County has committed to building a Safety Training Facility at a cost of \$700,755. The County has committed \$175,000 in cash towards the project and has been awarded \$190,000 in grant funds from USDA. The remaining \$335,755 will be borrowed from USDA over a 40-year term. \$20,000 is budgeted in FY 10-11 in order to make the annual payment to USDA.

Alleghany County has submitted a grant application to the NC Parks & Recreation Trust Fund to build a park consisting of six multi-use fields, a walking trail, restroom/concessions and a picnic shelter. The proposed project cost is \$344,959. The project is eligible to receive 50% in grant funds leaving \$172,479.50 to be funded by the County. County funds are not proposed to be budgeted for FY 10-11. If the grant is awarded, then the County will have three years to complete the project.

ALLEGHANY COUNTY BOARD OF EDUCATION

Current Expense

Due to limited funds, the Alleghany County Board of Education's FY 10-11 funding is proposed to remain at \$2,498,675. If approved by the Board, this will be the second year in which the school's current expense remains level. The school system significantly cut expenditures in the current FY 09-10 in order to balance their budget. Stimulus funding received in FY 09-10 and stimulus funding slated to be received in FY 10-11 should help the school to conservatively survive budget cuts from the State. The State legislature is now in session deciding the level of funding Alleghany County schools will receive in FY 10-11. It is very probable that the school system will have to make some difficult choices to balance their budget in FY 10-11.

Although the school system will have to make some tough choices for FY 10-11, it is the following FY 11-12 that could potentially be the most damaging. Federal stimulus funding is scheduled to end and it will be up to State and County officials to decide the long-term fate of the school system. If Federal stimulus funding ends as scheduled, then an annual funding gap of at least two to three hundred thousand dollars will exist in the school system. Taking into consideration that the school system has already made cuts into personnel/operating costs and that the State/County will probably not see any significant additional source of revenue by FY 11-12, it will be imperative that the County Board of Commissioners and the Board of Education begin discussions at least by January 2011 about the future of our school system.

Capital – School Capital Reserve Fund

State law requires that 30% of the Article 40 (½ cent) sales tax and 60% of the Article 42 (½ cent) sales tax go to schools for capital. It is also now law that Counties are to hold school systems harmless in regards to the Medicaid swap deal with the State. In order to properly hold the school system harmless, the County began calculating its mandated portion of sales tax to the schools using only Article 40. I anticipated calculating 90% of Article 40 to meet the County's requirement of holding the schools harmless. In early 2010, the NC Association of County Commissioners discovered that the reports being provided to the Counties from the NC Department of Revenue did not separate out revenues generated by Articles 40 and 42 through food sales. They also discovered that the mandated 30% of Article 40 and 60% of Article 42 portions to schools were not required to be applied to food sales.

The NC Department of Revenue has changed its reporting format to the Counties to reflect food sales separately from other sales. The NCACC has developed a new methodology for calculating the mandated portion to schools. When applying this new methodology, the school's mandated portion of sales tax has been reduced by approximately \$39,000 this FY 09-10. When the new methodology is applied to FY 10-11, it reduces their mandated portion by approximately \$60,000. It is estimated that the mandated portion that will go to the schools is \$402,659 in FY 10-11. Adding in the \$500 of interest these funds will generate, new funds going to the Schools in FY 10-11 will be \$403,159. Note: This number does not include any rollover funds from the previous year.

The new methodology used to calculate mandated portions of sales taxes towards schools was not known by anyone across the State until mid FY 09-10 and has dramatically impacted the school's capital outlay planning. In order to mitigate the \$39,000 loss in FY 09-10 and \$60,000 loss in FY 10-11, I proposing that the County allocate an additional one-time amount of \$60,000 to the schools in order for them to meet their commitments in FY 10-11. I am not recommending at this time to alter the new mandated sales tax allocation methodology. Any future allocations in FY 11-12 and beyond above the mandated amount should be decided on a case-by-case basis.

SPECIAL APPROPRIATIONS

There are several agencies that operate under the special appropriations category. I have divided these groups into four categories: 1. Grants & Mandates 2. Volunteer Safety 3. Primary Core Functions 4. Secondary Functions.

Grants & Mandates

This category includes the Criminal Justice Partnership Program, Juvenile Crime Prevention Council, occupancy tax transfer, CSC fines & forts, deed stamps, transfer to register of deeds enhancement fund and transfer to re-evaluation fund. The CJPP program is 100% grant funded and the JCPC program is mainly funded through grant sources. The remaining items are mandated by law. Although re-evaluation is mandated by law, how it is paid for is not part of the mandate. Alleghany County has traditionally set aside \$40,000 per year in order to pay for the re-evaluation. The \$40,000 was not set aside in the current FY 09-10. I strongly recommend setting aside the \$40,000 for FY 10-11.

Volunteer Safety

This category includes Sparta-Alleghany Volunteer Fire Department, Piney Creek Volunteer Fire Department, Glade Creek Volunteer Fire Department, Laurel Springs Volunteer Fire Department, Cherry Lane Volunteer Fire Department, Alleghany County Volunteer Rescue Squad and the volunteer Fire Commission. Funding for this group is proposed to be frozen at the FY 09-10 level. Following along with the Board's decision for current FY 09-10, I have proposed continuation funding of \$90,000 as matching funds for equipment purchases. Each department will be allocated \$15,000 to go towards the required 50% match to their State grant applications. Allocating \$90,000 will allow these Departments to purchase \$180,000 in equipment.

Primary Core Functions

This category includes the Alleghany County Public Library, Appalachian District Health Department, Smoky Mountain Center (local mental health department), Alleghany County Council on Aging, Wilkes Community College (Alleghany County Campus), NC Forestry Service and the Alleghany County Group Homes (as designated by the Board in FY 09-10). I have classified these entities as primary core functions for several reasons. Health Department and Mental Health services are State-mandated County functions and provide vital services to our citizens. The Public Library is our County's largest literary resource. Major cuts to the Library would have a detrimental effect on our citizens' access to knowledge, art and entertainment. Alleghany Council on Aging's primary expenses provide meals and in-home aid services to the elderly. They are the largest provider of these services in the County. Significant cuts to COA would have an extreme impact on the majority of services provided to Alleghany's expanding elderly population. Wilkes Community College is the only provider of secondary education in Alleghany County. Their joint efforts with the Alleghany County School System have dramatically increased educational opportunities within our County. WCC also plays a major role in continuing education programs for our new and existing employers. Any major cuts to WCC would have a significant impact on our high school, adult and employee/employer educational opportunities. The NC Forestry Service is the only free provider of forestry management planning to our community and is a valuable resource with our Fire Departments when fighting forest fires. Alleghany County Groups Homes is the only significant provider of life skill services and employment opportunities to our mentally challenged population group. Following along with the Board's decision for current FY 09-10, I have proposed level funding for all of these agencies with the exception of Wilkes Community College.

Wilkes Community College (WCC) and Alleghany High School has had great success in providing opportunities for adult and high school students. They have been successful in graduating high school students with college level credits while providing significantly more opportunities to our adult population. They were able to accomplish these successes by combining adults with high school students in the same classroom.

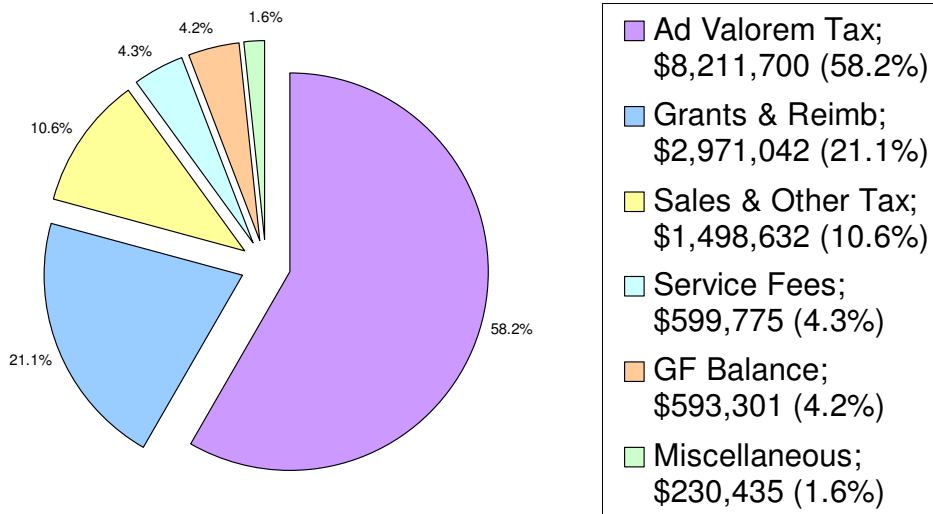
Combining adults with our high school students allowed WCC to meet the minimum State requirements to fund the cost of the program. Alleghany County Schools were also getting credit for the high school student taking the course. Last year the State decided that this was “double-dipping” into State funding and decided to no longer give credit to WCC for high school students taking their courses. The State applied these rules to “General Education” courses but still funded the “Math & Science” and “Technical Courses” under the old model. In an attempt to continue to offer “General Education” courses to all students, WCC began offering these courses through the “Learn and Earn Program” by way of the internet. Although these internet courses can earn students college level credit hours, students are struggling without the more traditional instructor based course offerings. It would cost the County approximately \$51,000 to offer “General Education” courses again under the traditional system. WCC is requesting an additional \$14,000 to fund one half of a high school liaison position. The school system is proposing to fund the other half of the position. The internet courses will be offered in a traditional classroom setting with the liaison position present at all times. The liaison would be available to assist students with their work assignments. Although this does not create a complete traditional learning environment, it is believed that the liaison position will greatly improve overall grades. I am recommending that the County fund the additional \$14,000.

Secondary Functions

Funded entities in this category include the Blue Ridge Opportunity Commission (BROC), Alleghany Arts Council, Alleghany County Chamber of Commerce, Alleghany Planning Committee, Alleghany County Health Advisory Council, Alleghany Family Resource Center, Alleghany Connections, Alleghany Wellness Center, American Red Cross, Wilkes Center for Deaf, Appalachian Senior Programs and Channel 50/21 support. The Board has previously chosen not to eliminate these agencies from County funding. Following along with the Board’s previous decisions, my recommendations do not eliminate these programs from County funding. All of these programs provide valuable services to the community but unfortunately I have still included a 25% across the board reduction for these entities in order to help balance the budget.

REVENUE HIGHLIGHTS

Counties rely on many revenue sources to fund their initiatives. Alleghany County's main revenue categories are ad valorem taxes, grants & reimbursements, sales & other taxes, service fees, miscellaneous and general fund balance appropriation. The County Commissioners have direct control over ad valorem taxes and some service fees while economic conditions and local/state initiatives determine the other revenues. The following pie chart illustrates Alleghany County's proposed Revenues By Source.

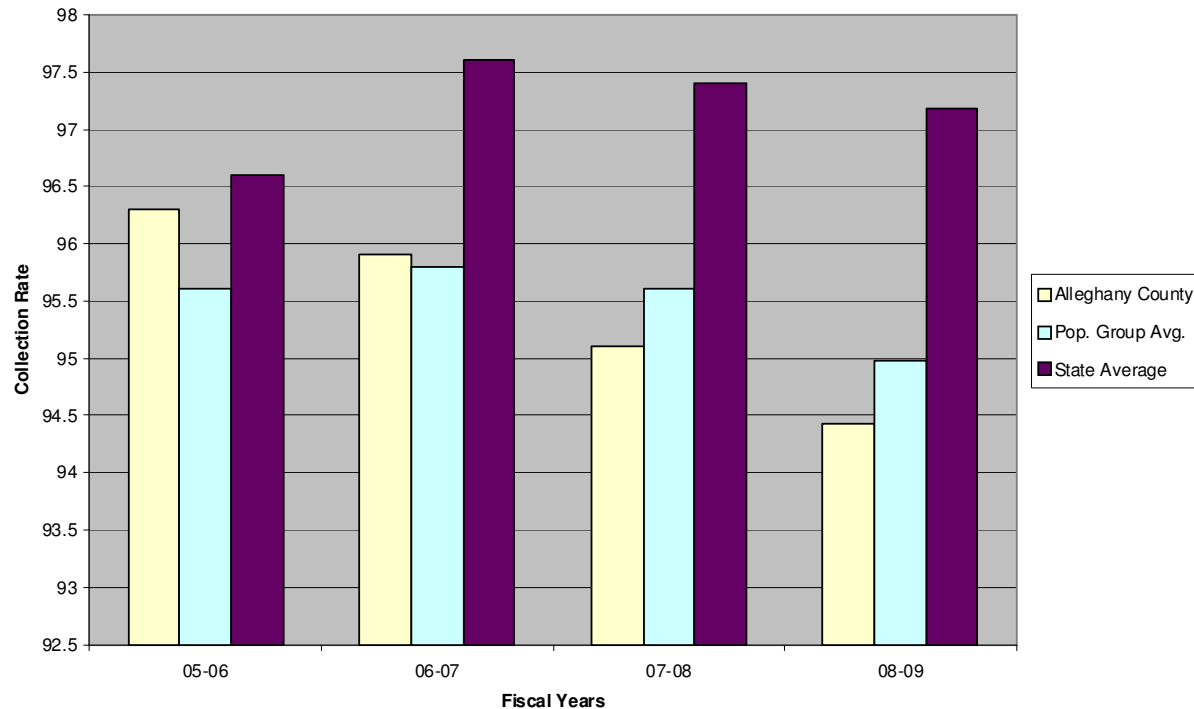


AD VALOREM TAXES

Approximately 58.2% (\$8,211,700) of the County's budget is proposed to be funded by the property tax. The proposed \$8,211,700 is comprised of \$7,936,000 from FY 10-11 property taxes, \$210,000 from prior year taxes and \$65,700 from penalties/interests on late payments.

The taxable base is projected to be \$1,788,108,269. State law dictates that a County can utilize at a maximum the last audited collection rate when estimating future tax collections. Alleghany County's Fiscal Year 08/09 audited collection rate is 94.43%. Therefore it is recommended that a 94.43% collection rate be applied when estimating property tax revenues. The following graph illustrates that Alleghany County's collection rates used to be consistently around 96%. In the last two years we have seen our collection rates drop from 95.9% to 94.43%. The graph also shows Alleghany County's collection rates in comparison to the average collection rates throughout the State.

ANALYSIS OF PROPERTY TAX COLLECTION RATES



GRANTS AND REIMBURSEMENTS

Grants and reimbursements account for approximately 21.1% (\$2,971,042) of the County's proposed revenues. Major reimbursement/grant highlights include \$1,393,641 in DSS administration reimbursements, \$461,907 in Child Development Administration, \$205,305 in Medicaid hold harmless payments, \$127,725 (85% of costs) for the administration of the Transportation System and \$125,000 reimbursement from the Board of Education to offset Sparta School Debt.

This category also includes revenue items such as other reimbursements/grants for Criminal Justice Partnership Program, Juvenile Crime Prevention Council, Social Services, Veteran's Administration, Emergency Management, Soil & Water, Council on Aging, NW Library, Roaring Gap deputies, dispatch salary, pin equipment, gas reimbursements and all transfers from other funds.

Alleghany County has been awarded \$32,920 from the North Carolina Energy Office to upgrade 563 light fixtures in four County and two Town facilities. These energy efficient fixtures will reduce energy costs by \$13,307 annually.

SALES & OTHER TAXES

Sales and other taxes account for approximately 10.6% (\$1,498,632) of the County's proposed revenues. Alleghany County receives tax revenues from the occupancy tax, the beer/wine tax, the ABC liquor tax, cable franchise tax and sales taxes Article 39 (1 cent), Article 40 (1/2 cent) and Article 42 (1/2 cent).

The occupancy tax and ABC revenues should remain constant. The cable franchise tax is projected to increase for FY 10-11. The State wine and beer tax should remain constant so long as the State does not withhold these funds. In FY 09-10, the State withheld two thirds of these funds. As of now, the Governor's/Senate's proposed budget has restored these funds for FY 10-11.

Article 39 is a 1 cent sales tax revenue that is determined by the amount of sales generated directly in Alleghany County (point of delivery). Alleghany County has seen a dramatic reduction in these sales tax receipts in the past few years. It is projected that FY 09-10 actual receipts will be at least -3.8% (-\$22,592) less than FY 09-10 budgeted amounts. Alleghany County is required to hold the Town of Sparta harmless for the Medicaid swap with the State. Complete hold harmless payments to the Town began five months into FY 09-10. When calculating an entire year of holding the Town harmless, it is projected that the County will see an additional reduction in FY 10-11 of -4.7% (-\$26,923) under FY 09-10 actual receipts. It is projected that the Article 39 sales tax will generate \$546,909 of revenue in FY 10-11.

Article 40 is a 1/2 cent sales tax revenue that is based on Statewide sales and distributed to the Counties based on population. Article 40 is the only sales tax that is not part of the Medicaid swap deal. It is projected that FY 09-10 receipts will at least be -8.5% (-\$47,564) less than FY 09-10 budgeted amounts. Although the NC Association of County Commissioners is recommending budgeting 1-2% growth in these revenues, I am recommending that we budget \$514,723 (projected FY 09-10 actual receipts).

Article 42 is a 1/2 cent sales tax revenue that traditionally has been based on Statewide sales and distributed to the Counties based on population. This tax was distributed to the Counties under the Statewide sales methodology for the first four months of FY 09-10. The remaining eight months in FY 09-10 are being distributed to the County based on sales generated directly in Alleghany County (point of delivery). It is projected that FY 09-10 receipts will at least be -4.5% (-\$17,358) less than FY 09-10 budgeted amounts. Since the entire FY 10-11 will be distributed to the County based on local sales, I am projecting that these revenues will decrease at least another -22% (-\$81,357). It is projected that Article 42 sales tax will generate \$288,000 of revenues in FY 10-11.

SERVICE FEES

Service fees account for approximately 4.3% (\$599,775) of the County's proposed revenues. With the slow down in development, Alleghany County has seen a significant drop in Register of Deeds revenues and Building Inspections revenues over the past several years. Although there is a slight decline in these revenues projected for FY 10-11, I believe these revenues have leveled off to the point that we should not see anymore significant drops. Other revenues included in this category are line items such as recreational fees, fire inspection fees, County beer & wine fees, court fees, jail telephone fees, all Sheriff Department fees, sod seeder rental fees and Town of Sparta tax collection fees. All of these fees will remain relatively constant.

It is projected that FY 09-10 EMS receipts will at least be -10.3% (-\$32,000) less than FY 09-10 budgeted amounts. Alleghany County did not receive the anticipated increases from Medicare when rates were adjusted. It is projected that EMS revenues will be \$280,000 in FY 10-11.

It is projected that FY 09-10 boarding of local and federal prisoners will be at least -45% (-\$174,758) less than FY 09-10 budgeted amounts. Alleghany County will no longer be boarding Ashe County prisoners since the opening of their new jail. Alleghany County currently is not boarding any Federal prisoners at this time, and the Sheriff does not know if or when the Federal government will begin using our services again. At this point I believe the County cannot anticipate any revenues from boarding of outside prisoners.

MISCELLANEOUS & GENERAL FUND BALANCE

Miscellaneous revenues account for approximately 1.6% (\$230,435) of the County's proposed revenues. These revenues include interest earned on investments, lottery proceeds, CSC fines and forts, miscellaneous revenues, snack revenues and the kids vote program. Due to extremely low interest rates, it is projected that interest on investments will be \$25,000 in FY 10-11. Alleghany County has received \$204,749 in lottery proceeds for FY 09-10. This significant increase (\$104,749) is due to increase lottery sales and the State returning withheld funds from last year. I have projected \$140,000 in the lottery proceeds revenue line item for FY 10-11 . All other revenues will remain fairly constant.

General Fund balance appropriation accounts for approximately 4.2% (\$593,301) of the proposed revenues.

GENERAL FUND BALANCE & TAXATION RECOMMENDATIONS

I am projecting Alleghany County's General Fund expenditures in FY 09-10 to be \$13,806,345. Alleghany County's fund balance at the end of FY 09-10 is projected to be \$2,680,000 or 19.41%. I have requested to use \$593,301 of the General Fund balance in the proposed FY 10-11 budget. History has shown us that normally \$200,000 to \$300,000 of General Fund balance appropriation is not actually utilized. For example, the amended FY 09-10 budget has \$815,525 budgeted for General Fund balance appropriation, but I am projecting that \$537,587 will actually be utilized. \$277,938 of the budgeted \$815,525 will not actually be utilized. If history continues to repeat itself, then only about \$300,000 of the budgeted \$593,301 will be utilized in FY 10-11. Utilizing approximately \$300,000 of the County's fund balance in FY 10-11 will drop the overall fund balance percentage to around 17% by the end of the fiscal year. A 17% fund balance represent approximately 2.04 months of operational expenses. I do not recommend to the Board dropping the fund balance below two months of operational expenses. Significantly dropping the County's fund balance below two months of operational expenses could cause cash flow issues, negatively impact our financial ratings and could erode the overall financial stability of County operations.

In order to maintain the County's finances, to meet the needs identified in this budget message and to prepare ourselves for future budgetary needs, I am requesting the Board to implement a tax rate of \$0.47 per \$100 of value within the County. This request represents a \$0.04 tax increase. If the Board chooses not to implement the \$0.04 tax increase, then I strongly recommend that the Board look to programs that receive continuation funding versus one-time expenditures in order to make up for revenue shortfalls.

SPECIAL FUND HIGHLIGHTS

NOTE: These funds are separate operating entities from the general fund budget. There are additional personnel and capital recommendations in the following summaries.

TRANSFER FACILITY ENTERPRISE FUND

The Alleghany County Transfer Facility FY 10-11 proposed operating budget is \$755,124. This proposal constitutes an approximate decrease of -7% (-\$56,769) under the FY 09-10 amended budget of \$811,893. The proposal implements all salary grade modifications and health insurance changes made by the Board. The main reasons for the proposed reduction include a significant reduction in maintenance of equipment and disposal costs. There are not major capital expenditures planned for FY 10-11.

Since overall operational costs have decreased, I am recommending to the Board to modify the existing fee schedule. I am proposing that the Board reduce the dumpster yardage rate from \$7.50 per yard per week to \$5.50 per yard per week. This will reduce fees to approximately 95 businesses by a total of \$38,500 per year.

EMERGENCY 911 FUND

The FY 10-11 E911 proposed budget is \$102,107. This proposal implements all salary grade modifications and health insurance changes made by the Board. The new E911 system has been installed, and there are no other major expenses planned for FY 10-11.

TRANSPORTATION OPERATIONAL FUND

The FY 10-11 Transportation Operational Fund Budget is proposed to be \$352,326. This is a \$68,391 (24%) increase over the FY 09-10 amended budget. This proposal implements the health insurance changes made by the Board. The Fund is operated as a revenue based fund relying on its own revenues to pay for expenses.

Highlights of this fund include a \$42,000 Elderly and Disabled Transportation Program grant, \$46,000 Rural General Public grant, \$5,325 Work First Transportation grant and \$51,489 in a capital grant. New grants include \$11,753 to offset operational costs for a new elderly and disabled van ("ED") and ARRA funds in the amount of \$23,446 to offset other operational costs.

The recommended capital budget for the Operational Fund is as follows:

Description	Amount
Two Mini-Vans (\$27,925 each)	\$55,850
Desk	\$360
Pressure Washer	\$1,000
TOTAL	\$57,210

Ninety percent (90%) of all capital is funded through grant sources.

OTHER FUNDS

This category includes other funds such as the Fairgrounds Fund, Economic Development Fund, Drug Agency Fund, Library Fund, Register of Deeds Enhancement Fund, Re-Evaluation Fund, Scattered Site Housing Fund, Soil & Water Fund, School Capital Reserve Fund and all active building funds. These Funds will be discussed during the budget process.

CLOSING

In closing, I would like to extend my appreciation to all County employees who work extremely hard to provide the necessary services that make Alleghany County a great place to live. I also extend my thanks to the Department Heads, Elected Officials and Special Appropriation representatives for their cooperation in fashioning their budget requests to the required specifications and timelines. And last – but by no means least – I would like to thank Finance and Administration employees for their tireless effort and attention to detail over the budget development process.

Respectfully submitted,

Don Adams
Alleghany County Manager